United Nations A/58/15 (Part I)

General Assembly

Distr.: General
18 July 2003

Original: English

Fifty-eighth session

Report of the Trade and Development Board on its thirtieth executive session*

Geneva, 2-4 December 2002

* The present document is an advance version of the report of the Trade and Development Board on its thirtieth executive session, held at the United Nations Office at Geneva on 2-4 December 2002. It will appear in final form, together with the reports on the thirty-first executive session, twentieth special session and fiftieth session of the Board, as *Official Records of the General Assembly, Fifty-eighth Session, Supplement No. 15* (A/58/15).

03-43577 (E) 220803

CONTENTS

Chapter		Page
I.	Agreed conclusions adopted by the Board at its thirtieth executive session	3
II.	Escaping the poverty trap: National and international policies for more effective poverty reduction in LDCs	5
III.	Institutional, organizational, administrative and related matters	20

Annexes

I.	Agenda for the thirtieth executive session	21
II.	Attendance	22

Chapter I

AGREED CONCLUSIONS ADOPTED BY THE BOARD AT ITS THIRTIETH EXECUTIVE SESSION

Escaping the poverty trap: National and international policies for more effective poverty reduction in LDCs

Agreed conclusions 473 (EX-30)

The Trade and Development Board,

Takes note with appreciation of the *Least Developed Countries 2002 Report* entitled: "Escaping the Poverty Trap", and commends the UNCTAD secretariat for the high-quality analysis and policy recommendations contained in the Report.

Having considered the Report, the Board adopts the following agreed conclusions.

1. The Board emphasizes the importance of speedy implementation by all stakeholders of the Millennium Declaration and the Brussels Declaration and Programme of Action, as well as provisions of particular importance to LDCs in the Doha Ministerial Declaration, the Monterrey Consensus, and the Johannesburg Declaration. It calls on UNCTAD, within its mandate and in cooperation with other international organizations, to play its full part in these endeavours.

2. Increased efforts should be made to ensure that LDCs are able to achieve the poverty reduction goals contained in the Brussels Programme of Action and in the Millennium Declaration. This requires, *inter alia*, achieving sustained economic growth that increases and eventually doubles average household incomes.

3. At the national level, the LDCs, which have the primary responsibility for the formulation and effective implementation of national policies and priorities for their growth and development, need to consider carefully the general policy orientations recommended in the LDC Report 2002, which calls for a reduction of poverty through long-term development strategies including more growth-oriented macroeconomic policies, sectorally focussed productive capacity building, an investment-friendly environment, vigorous trade diversification and promotion policies, and policies to ensure inclusion and good governance. These need to be undertaken with the support of the LDCs'development partners and within their national development framework.

4. It is recognized that the LDCs, with the support of their development partners, need to consider carefully the general policy orientations recommended in the LDC Report 2002. In order to boost national resources, the cornerstone of development, the Board recognizes that debt relief and official development assistance (ODA) can play a critical role. It welcomes the Heavily Indebted Poor Countries (HIPC) Initiative and stresses the need for its speedy implementation and a durable solution

to the problem of indebtedness of the poorest countries. These measures should be supplemented by meaningful market access for LDCs.

5. The Board expresses its concern about falling commodity prices and their negative effects on LDCs' efforts to fight poverty. The international community should consider appropriate measures in order to overcome these negative effects. The Board underlines the importance of international support for national efforts aimed at improving supply capabilities and rationalizing supply through such approaches as minimum quality standards and horizontal and vertical diversification.

6. Streamlining donor practices in terms of aid delivery is an important prerequisite for the success of national poverty reduction strategies. Aid flows should be provided in a more predictable manner with long-term commitments. It is essential for LDCs to establish systems of aid performance monitoring to improve the level, quality and effectiveness of development aid.

7. The LDCs should assume strengthened ownership and autonomy - through building state capacities - in designing, sequencing and implementing their development policies in order to break out of the poverty trap. The Poverty Reduction Strategy Paper (PRSP) approach is an evolving process and the Board welcomes the renewed emphasis on poverty reduction. In this context it is essential to put adequate emphasis on ways and means of ensuring and sustaining growth, exports and investment.

8. The Board recommends that UNCTAD should continue within its mandate to support the efforts of LDCs in the ongoing process of formulating and implementing PRSPs and in this context enhance its collaboration with relevant international organizations giving priority to LDCs.

9. Recognizing the usefulness of the LDC Report, the Board also recommends that the Working Party at its next session should consider the possibility of the annual publication of the LDC report within resources at the disposal of UNCTAD.

938th plenary meeting
4 December 2002

Chapter II

ESCAPING THE POVERTY TRAP: NATIONAL AND INTERNATIONAL POLICIES FOR MORE EFFECTIVE POVERTY REDUCTION IN LDCs

1. For its consideration of this item, the Board had before it the following documentation:

"The Least Developed Countries Report 2002: Escaping the Poverty Trap" (UNCTAD/LDC/2002 and Overview)

A. Statements

2. The **Secretary-General of UNCTAD** said that development and poverty reduction in the least developed countries was one of the most important global policy issues of our times. In the second half of the 1990s, about half the population in the LDCs was living on less than $1 a day. One in 10 children died before their first birthday, and average life expectancy was only 50 years. Extreme poverty was widespread, and its incidence was rising in African LDCs. The situation in the LDCs was an affront to humanity and a threat to global security, and it implied major flaws in the current form of globalization. He underlined the challenge of meeting the Millennium Declaration's commitment by the year 2015 to reduce by half the proportion of the population living on less than $1 a day. What happened in the LDCs was central to achieving that commitment, because the problem of $1-a-day poverty was increasingly an LDC problem.

3. UNCTAD had been analysing the special problems of the LDCs since 1971. The Programme of Action adopted by the Third United Nations Conference on the LDCs (Brussels, 2001) stipulated that the Millennium Development Goals should be achieved not only globally, but also within the LDCs as a group. UNCTAD was continuing its involvement in efforts to implement the Programme of Action and the new framework for development partnership agreed at the Conference. This commitment was exemplified by the *Least Developed Countries Report 2002*, with its emphasis on the implications of the poverty trap.

4. In drafting the Report, the UNCTAD secretariat had devised a precise method for assessing poverty trends in the LDCs, and the Report thus provided a stronger analytical foundation for achieving the overarching goal of the Programme of Action, namely, poverty reduction. It would also help to increase awareness of the difficulties that LDCs and their development partners were likely to confront in their attempts to secure effective benefits for the least developed countries by virtue of their LDC status.

5. UNCTAD was also strengthening its analysis of the interrelationship between trade and poverty reduction in the LDCs. The aim was to facilitate the adoption of appropriate trade policies by the LDCs and of international support measures enabling trade to become an engine of growth and poverty reduction.

6. The main results he expected from the Board's session were a greater understanding of the issues, a greater consensus on the best ways to move forward and a greater political commitment to do so. He hoped the results would be achieved in three major areas. The first area concerned the importance of sustained economic growth and development for effective poverty reduction in the LDCs. The second area was the importance of the link between primary commodity dependence and poverty. One of the key findings of the Report was that, amongst the LDCs, the share of the population living in extreme poverty was highest in those countries that depended on primary commodity exports for their economic survival and development. The third area was the link between the socioeconomic marginalization of the poorest countries and the difficulties faced by more advanced developing countries in sustaining their own development. Progress in this regard would reduce oversupply in commodity markets and also enhance market opportunities for LDCs.

7. Addressing the socioeconomic marginalization and extreme poverty of the LDCs would require not only differential treatment for them, but also measures to reduce polarization in the global economy. Development strategies should be tailored to the specific needs and circumstances of each country, and affirmative action vis-à-vis the LDCs was one of the pillars of the multilateral approach.

8. The **Head of the** Special **Programme for Least Developed, Landlocked and Island Developing Countries** said that the Report before the Board was the first comprehensive analysis of poverty in the LDCs. It measured the incidence and depth of poverty precisely and identified trends over time and differences among LDCs. The Report was based on a new set of poverty estimates, and these suggested that the proportion of the population living on less than a dollar a day had been underestimated in the very poorest countries, and in particular in Africa.

9. Three key issues raised in the Report were: the opportunity for poverty reduction; the nature of the challenge that must be addressed to realize that opportunity; and the adequacy of current national and international policies to meet the challenge and seize the opportunity. On opportunity, the Report showed that, at very low levels of income per capita, a doubling of average household incomes could slash $1-a-day poverty rates. On challenges, he said that, to realize this opportunity, countries must escape the poverty trap in which they were caught. This trap existed because pervasive extreme poverty had effects that in turn perpetuated extreme poverty, and the problem was particularly acute in those LDCs that depended on primary commodity exports for their economic survival and development. In all LDCs, pervasive poverty meant that it was difficult to mobilize domestic resources to finance private investment, basic infrastructure and essential public services, including good governance. But in commodity-dependent economies, the development task was made even harder by low and unstable commodity prices, the related build-up of unsustainable external debts and the development of an aid/debt service system in which aid was used to finance debt repayment, not development. The Report argued that the current form of globalization was reinforcing the poverty trap and thus exacerbating the problem of the socio-economic marginalization of the poorest countries.

10. Regarding the third key issue, current national and international policies were not going to be sufficient to enable countries to escape the poverty trap and realize the major opportunity for rapid poverty reduction through sustained economic

growth. The principles underlying current policies as embodied in the Poverty Reduction Strategy Paper (PRSP) approach – to increase national ownership, partnership and international policy coherence – were the right ones. However, much more must now be done to improve PRSP implementation and to make it work for effective poverty reduction in LDCs. At the national level, this must involve more developmentalist poverty reduction strategies that sought to increase investment and productivity in key sectors, as well as exports. At the international level, there was a need for increased debt relief; more, and more effective, aid; greater South-South cooperation; and the renewal and recasting of an international commodity policy.

11. Some of the ideas in the Report were controversial. In particular, the Report was less optimistic about the effects of traditional structural adjustment reforms in very poor countries, and less pessimistic about the potential for more activist policy interventions to animate and guide private enterprise, which should be the engine of growth, investment and exports, in support of national development and poverty reduction. But vigorous policy debate on areas of disagreement was important to ensure better policies and outcomes. The Report's approach was pragmatic and undertaken in a spirit of constructive engagement in current policy debates to improve the way things were working. The ideas of the Report had been shared at several multilateral fora, including ECOSOC, as well as workshops and seminars in Geneva, and the report was in considerable demand.

12. The representative of **Benin**, speaking on behalf of the **least developed countries,** welcomed the Report. He highlighted the quality of its analytical content and its depiction of the reality of the socio-economic vulnerability of LDCs. Development efforts in LDCs were being hampered by the weak prices for primary commodities, which constituted the main source of their export earnings. Market access difficulties faced by LDCs were of major concern, and high import tariffs and technical barriers to trade considerably limited the ability of LDCs to increase their export earnings and thus to reduce their poverty.

13. In 2000, net FDI flows into LDCs had decreased by 15 per cent, and the burden of external debt constituted an additional constraint on their development, limiting investment capacity. In order to assist the LDCs' efforts, more ODA should be provided, in line with donors' commitments, and it should be delivered effectively.

14. Concerning adjustment policies, poverty remained unchanged even in countries that had correctly adopted reforms. A number of LDCs had adopted or were now preparing their PRSP, and in that connection PRSP policies required optimal resource mobilization and a more participatory process in order to achieve their objectives. Such an approach would permit the achievement of the poverty reduction goal entailed in the Programme of Action adopted by the Third UN Conference on LDCs, in the Millennium Declaration and at other major international conferences.

15. The representative of **Egypt,** speaking on behalf of the **Group of 77 and China,** praised the Report's analytical work, which opened new pathways to understanding and dealing with the LDCs' problems. She said that poverty was increasing in the LDCs, despite the international community's recognition of their special problems, and without defined and courageous actions from all stakeholders,

it might not be possible to achieve the international development goal of halving poverty by 2015.

16. With regard to the issue of national responsibility, LDCs had acknowledged this and were adopting economic reforms aimed at integrating themselves into the world economy. However, external support such as debt relief, aid and market access remained crucial to ensure their success. Referring to ODA, while praising those developed countries that had respected their commitments, she expressed concern for the decreasing overall ODA trend and called on all stakeholders to shoulder their responsibilities. Effective implementation of the outcome of recent conferences, including duty-free and quota-free market access for LDCs' products, as indicated in the Programme of Action adopted by the Third UN Conference on LDCs, would represent a substantial step forward in supporting the development process.

17. She commended the General Assembly's approval of the establishment of the World Solidarity Fund, which would assist in alleviating the resource deficit and complement the international community's efforts to eradicate poverty. She also noted the role of South-South cooperation as a complement to North-South cooperation. In this context, she praised the developing countries for their efforts to assist the LDCs in spite of their limited resources. However, she warned that if a "glass ceiling" blocked progress in the more advanced developing countries, this would have negative effects on the LDCs.

18. The issue of commodities was crucial for LDCs, as commodities represented the main output of their factors of production. Given the absence of social safety nets and limited savings, and without a minimum level of investment, there was no way to escape the poverty trap. She therefore called on the international community to pay greater attention to the problems of commodity-exporting countries. The solution required two-track action involving long-term assistance for national efforts to diversify and short- and medium-term assistance to find a just solution to protect against commodity price deterioration.

19. Finally, on the question of the biennialization of the Report, she hoped that the Board would reaffirm its importance and that the necessary resources would be provided in order to publish the report on an annual basis.

20. The representative of **Denmark,** speaking on behalf of the **European Union, the countries of Central and Eastern Europe associated to the EU, and Cyprus, Malta and Turkey,** said that the LDC Report was regarded as an important and valuable contribution to policy discussions on LDCs. The aim of the Board's executive session should be to work towards a consensus on poverty reduction policies, while keeping in mind the agreed goals and objectives of the Millennium Declaration, including the central goal of poverty reduction, which should be the overall objective for UNCTAD's work.

21. Regarding the Report, he underlined three issues: opportunities, trade liberalization and coherence. On opportunities, the report made valuable policy recommendations and pointed to important policy decisions to be made by the LDCs, on which the views of LDCs would be of interest. On the issue of trade liberalization, LDCs merited special attention. He agreed with the Report that trade liberalization did not necessarily lead to growth and poverty reduction, but well-managed trade liberalization accompanied by other policy measures was a necessary

condition for long-term growth and poverty reduction. The Integrated Framework was as a promising initiative in support of national efforts to integrate trade into national development strategies. On coherence, he expressed hope that the discussion on the links between trade and poverty reduction strategies would contribute to coherence in that field, and he appreciated participation of the World Bank in the Board's session to support that effort.

22. With regard to poverty reduction, he underlined the necessity of targeted international measures that supported national efforts. On market access, the European Union had taken the Everything but Arms initiative, and it called on others to take similar initiatives in order to give duty-free and quota-free market access to products originating in LDCs. Finally, he welcomed the increased international support for trade capacity building to overcome supply side constraints. He stressed that the EU and its Member States had committed themselves to that agenda, and the European Council had sent a strong signal that the EU was prepared to deliver on the commitments made in Doha, Monterrey and Johannesburg.

23. The representative of **South Africa,** speaking on behalf of the **African Group**, said that the analysis contained in the Report constituted an important contribution to understanding the nature and depth of the problems facing LDCs and provided necessary guidance on where to focus in addressing these challenges. He highlighted the need for deliberate and urgent action in favour of commodity-dependent countries and the need to identify elements of an international commodity policy that could support the achievement of the poverty reduction goal. Sustained growth could only be realized in countries that promoted diversification.

24. If the current global economic environment and associated policies continued unabated, it was most unlikely that LDCs would achieve the poverty reduction goals of the Brussels Programme of Action and the Millennium Declaration. He recalled the need for enhanced productive capacities and employment through increased ODA, speedy and effective debt relief, improved market access, and capacitating institutions of implementation and governance.

25. PRSPs needed to be improved and strengthened in respect of national ownership, policy content and resources. He encouraged donors to meet their commitment on ODA targets contained in the Brussels Programme of Action, and stressed the importance of predictable and untied aid. He looked forward to reaching a consensus on the importance of establishing systems for monitoring donor performance to improve aid quality and effectiveness. That would also contribute to a joint exploration by the LDCs and their development partners of the trade-offs between different levels of external assistance and poverty reduction.

26. Concerning the external debt issue, bilateral and multilateral creditors should cancel all outstanding debt owed by LDCs, and the enhanced HIPC initiative should be implemented fully and speedily. Concerning market access, initiatives such as the Everything but Arms initiative and AGOA were steps in the right direction, but remaining trade barriers (such as tariff escalation, tariff peaks and other complex non-tariff barriers) continued to hamper LDC exports' entry into markets of major trading partners. In this regard, increased market access offers should be supplemented with specific actions to address supply-side constraints, and priority should be given to ensuring that more aid was targeted to productive sectors and economic infrastructure in LDCs.

27. The representative of **Indonesia**, speaking on behalf of the **Asian Group and China**, said that dedicating the Board's executive session to the problems faced by LDCs represented recognition of the challenges faced by the LDCs and the international community alike. He noted the LDC Report's finding on the doubling of the number of people living on less than a dollar a day over the past 30 years, and emphasized that the income and expenditure of the Asian LDCs' poor were extremely low in a global context. Unless current trends were reversed through appropriate assistance from development partners, most LDCs would be unlikely to achieve the poverty reduction goals. He therefore called for a comprehensive approach, at the national and international level, to resolve the complex development problems facing the LDCs.

28. Escaping the poverty trap was the key to achieving the goal of halving the incidence of extreme poverty by 2015. As $1 a day poverty was falling in large low-income Asian countries, the problem of poverty was increasingly becoming an LDC issue. While the primary responsibility for the formulation and effective implementation of national policies and priorities lay with the LDCs, without adequate international support their efforts would be in vain. While he acknowledged the recent increases in ODA levels compared to the late 1990s, he called for further efforts by donor countries to meet their commitments on ODA targets and on untying and ensuring predictability of such resource flows to LDCs. Priority should be given to ensuring that more aid was targeted to productive sectors and economic infrastructure in order to address supply-side constraints. Regarding the heavy burden of external debt, he urged creditors to cancel all outstanding debt owed by LDCs and called for the full and speedy implementation of the enhanced HIPC initiative.

29. Regarding PRSPs, the process should not be limited to short-term stabilization measures but should strive towards the long-term development of LDCs and poverty reduction. Empirical evidence showed that stringent conditionality and policy requirements did not guarantee sustained development in LDCs. He also stressed the need to ensure ownership and autonomy for LDCs in designing, sequencing and implementing their development policies. He therefore highlighted the need to build and strengthen state capacities to that end. He also called for more attention to be paid to how policy conditionality worked in poor countries. In conclusion, he hoped that UNCTAD would strengthen its analytical research on the problems of LDCs and urged development partners to provide UNCTAD with the necessary resources to continue this research and also to provide technical assistance.

30. The representative of **Haiti**, speaking on behalf of the **Latin American and Caribbean Group**, said the LDC Report 2002 showed that poverty had increased in a number of LDCs and identified a number of factors that could help those countries to escape the poverty trap. Structural adjustment programmes had been adopted by a number of LDCs, but poverty had increased even in LDCs that had been identified as good compliers by the World Bank. A good number of LDCs would not be able to achieve the international development goals set out in the Millennium Declaration and in the Brussels Programme of Action.

31. Concerning LDCs that depended on primary commodity exports, the LDC Report showed that these countries had been affected by increased poverty, weak and unstable export earnings and a high debt burden, which in turn had deepened the income gap between these countries and rich countries over time. Noting that the

LDC's that had diversified their exports into manufactures and/or services had succeeded in reducing their poverty levels, and pointing to a link between the poverty level of a country and its capacity to diversify its production structure, he stressed the importance of a country's export structure for its development efforts.

32. His Group strongly supported the idea according to which harmonization between the build-up of productive capacities and the promotion of local infrastructure should be placed at the centre of development efforts. These elements should be reflected in PRSPs and the Integrated Framework.

33. He stressed that the success of development strategies lay in the hands not only of the LDC's but also (and to a significant extent) of the international community. In this context, the weak level of ODA, the conditional nature of aid, the insufficient level of debt relief, and non-effective market access were important problems. He therefore urged the development partners to increase their efforts with respect to ODA commitments, debt relief and market access facilitation. The developed countries should eliminate import tariffs and quotas and reduce technical barriers to trade, including excessively rigorous sanitary and phytosanitary standards and unnecessarily complex rules of origin. They should also increase aid effectiveness through the elimination of existing policy contradictions, in particular through the elimination of subsidies in both the agricultural and the manufacturing sectors. These subsidies impacted negatively on production and export sectors in LDCs.

34. A good number of Latin American and Caribbean countries depended greatly on exports of non-oil primary products, and emphasis should be placed on assistance in respect of policies that targeted price stabilization for such products and that could contribute to diversification and increased value added of LDC exports. Finally, his Group encouraged the LDCs to take the conclusions of the LDC Report 2002 into account in their poverty reduction strategies, and hoped that international institutions would also seriously consider the findings of the Report.

35. The representative of **Switzerland** said that the LDC Report put forward a number of proposals on ways to break the links between primary commodity dependence, generalized poverty and indebtedness, and he encouraged UNCTAD to deepen its analysis in these areas. Concerning the underestimation of the role of economic growth as an engine for poverty reduction, donors and international financial institutions had already shown concern on the issue.

36. The LDC Report was right with regard to the need for greater national ownership and participation in defining and coordinating development policies and strategies. However, aid conditionality in respect of good governance and structural reform should stimulate LDC authorities in undertaking innovative and courageous decisions.

37. The LDC Report's approach seemed rather pessimistic concerning the ability of national measures to improve the situation, and so the LDCs were not sufficiently encouraged to undertake reform. The potential benefits of regional and South-South cooperation did not receive sufficient attention, and the Report developed a rather critical view on the PRSP approach. The PRSP process faced a number of problems, but efforts were being made in the beneficiary countries to enhance its efficiency.

38. In order to ensure the efficiency of national, regional and international policies, particular attention should be given to conflict prevention and conflict resolution, as conflicts were currently hampering development efforts in too many

LDCs. The same applied to the population growth problem. Finally, the formation of a wide national, regional, and international alliance involving bilateral and multilateral institutions, as well as the public and the private sectors, was a precondition for the success of the Brussels Programme of Action.

39. The representative of **Norway** said that, by devoting an executive session of the Board to the least developed countries, UNCTAD confirmed that it placed the interests of the poorest and most vulnerable countries at the top of its agenda. The LDC report was a thought-provoking analysis that advanced understanding of current approaches to poverty reduction and contributed to the achievement of the Millennium Development Goals. He welcomed the emphasis in the Report on a development-oriented approach, but such an approach was complementary to adjustment-oriented approaches, because development could only be sustainable in a stable macroeconomic environment. Development-oriented approaches also needed to place greater emphasis on the role of the private sector, and they needed to acknowledge the importance of infrastructure, education and health. Finally, development-oriented approaches that aimed at a reduction in poverty must also address distributive effects. The new poverty estimates put forward by the Report allowed not only a comparison of poverty between countries, but also an evaluation of poverty trends over time. The latter was the crucial challenge with respect to poverty measurement. The success of development-oriented approaches and poverty reduction was strongly dependent on national factors, particularly a system of good governance and the rule of law, but it also depended strongly on international factors. Accordingly, the donor community ought to provide more and more efficient technical cooperation, it ought to increase market access, and it ought to accelerate debt relief. In addition, the international community should tackle seriously the problems faced by LDCs that were strongly dependent on the export of primary commodities.

40. The representative of the **United States of America** said that the LDC Report helped move the development community forward in its efforts to understand and confront the issues facing the LDCs and the challenge of poverty reduction. He welcomed in particular the report's analysis of poverty and its relation with growth in the LDCs However, he encouraged UNCTAD to conduct further research on the factors limiting growth and poverty reduction in the LDCs. The work of his own Government on LDCs revealed great differences in growth among LDCs that could not be explained by levels of poverty and export dependence on non-oil primary commodities alone. Understanding what factors contributed to or inhibited growth and poverty reduction was of extreme importance. He welcomed the fact that UNCTAD's report briefly acknowledged the influence that conflict had on the development of LDCs.

41. His Government honoured the commitments made at the Third UN Conference on Least Developed Countries. The Brussels Programme of Action was an important complement to other development plans, the implementation of which should pay particular attention to trade and investment and the contribution of the private sector, as well as to the national responsibility of LDCs and the need to establish a system of good governance. Finally, he emphasized the need for greater aid effectiveness. The success of the Brussels Programme of Action would depend first and foremost on robust poverty reduction strategies.

42. The representative of **China** said that it was time for the international community to honour the commitments undertaken at recent international conferences, including the UN Millennium Summit, the Third UN Conference on Least Developed Countries, the WTO Ministerial Meeting, and the UN Conference on Financing for Development. China welcomed the LDC Report and the analysis presented in it. It stressed the role of economic growth for poverty reduction and underlined the importance of productive sector development for economic growth. In order to break out of the poverty trap, countries must assume true ownership of poverty reduction strategies and adjust these strategies to national specificities; they must focus on the development of domestic productive and supply capacities and promote investment; and the international community must support the efforts of the LDCs by honouring its commitments towards them and designing appropriate complementary policies. The development objectives outlined in the Brussels Programme of Action were of particular importance in that context. The developed development partners of the LDCs should take action to further increase market access for LDC exports, but they should also step up international cooperation to deal with the adverse economic effects associated with the unfavourable terms of trade that many LDCs faced. In addition to cooperation between developed countries and LDCs, regional cooperation and South-South cooperation could also play a role in the development of LDCs. In that connection, China was very concerned about the development of the LDCs and would take actions to aid their development. Finally, UNCTAD should play a greater role in the processes associated with the Poverty Reduction Strategy Papers. Close cooperation was also needed between UNCTAD and the Office of the High Representative for LDCs, Landlocked Developing Countries and SIDS, as well as other UN agencies and the international financial institutions. To that end, it was vital that UNCTAD continue and enhance its research and policy analysis work with respect to LDCs.

43. The representative of the **International Monetary Fund** underlined his organization's agreement with much of the LDC Report. The new national-accounts-based poverty estimates that were presented in the report were an important complement to existing estimates of poverty, especially as they allowed for the analysis of trends and highlighted the poverty and growth relation that characterized the LDCs and other low-income countries. He shared UNCTAD's views on the importance of growth-oriented macroeconomic policies and the development of productive capacities. In addition, he agreed with the need for a strategic integration of the LDCs into the world economy. Those policies needed to be complemented by social policies that precluded the marginalization and exclusion of groups and regions in the development process. The IMF remained fully committed to the achievement of the UN Millennium Development Goals, including reducing the incidence of extreme poverty. To that end, the IMF remained engaged in the processes associated with the Poverty Reduction Strategy Papers (PRSPs), and it continued to provide debt relief under the HIPC Initiative. In conclusion, he said that the Report advanced the international community's discussions and was a positive example of how development partners could work together to promote the development objectives embodied in the UN Millennium Declaration.

B. President's summary

44. The Trade and Development Board held its first executive session on LDCs from 2 to 4 December 2002. This executive session of the Board was devoted exclusively to the specific problems faced by LDCs and was held pursuant to the decision taken at the nineteenth special session of the Board, which took place in Bangkok, Thailand, from 29 April to 2 May 2002. At that special session, the Board decided "... following the publication of the *Least Developed Countries Report*, an executive session of the Board on LDCs, not exceeding three days, will meet to discuss the report ...".

45. The executive session focused on the issues raised in the *Least Developed Countries Report 2002: Escaping the Poverty Trap* with two main objectives: firstly, to make a substantive contribution to the policy debate on poverty reduction strategies, including identifying policy measures at both the national and international levels, to enable LDCs to escape the poverty trap; and secondly, to promote consensus on key elements of effective polices of poverty reduction in LDCs.

46. The executive session of the Board benefited from panel discussions. These addressed three main questions:

- Can current national and international policies meet the challenge of poverty reduction in the LDCs?
- What improvements can be made to the substantive content of national poverty reduction strategies?
- What key improvements can be made to international support measures for LDCs to ensure more effective poverty reduction?

Panelists and resource persons included ministers and policymakers from LDCs and their development partners, as well as from international organizations, international NGOs and academia.

47. Overall the *Least Developed Countries Report 2002* was praised as an excellent analysis ("one of the finest in many years") that made a major contribution to the description and analysis of poverty in LDCs and to the design of appropriate national and international policies to reduce poverty effectively in these countries and achieve the overarching goals of the Programme of Action established at the Third UN Conference on LDCs. Although the picture it painted was bleak, it should be seen as a timely call to action rather than a source of pessimism and despair.

The challenge of poverty reduction and adequacy of current national and international policies to meet the challenge

48. Participants expressed serious concern at the unabated dismal socioeconomic conditions in LDCs, which remain a challenge for the least developed countries themselves and for the international community. If the current trends continue, it is unlikely that most LDCs will achieve the poverty reduction goals of the Programme of Action and the Millennium Declaration. The overarching goal of the Millennium Declaration and the Programme of Action is to make substantial progress toward halving the proportion of people living in extreme poverty and suffering from

hunger by 2015 and promote the sustained growth and development of the LDCs through, among other things, significant and steady increases in GDP growth rates in LDCs.

49. There was convergence of views and opinions among participants that when poverty is so severe and affects such a large proportion of the population as it does in most LDCs, it is not simply a result of economic stagnation but also a cause of economic stagnation. The challenge of poverty reduction in the LDCs is rightly seen as a problem of escaping a poverty trap in which widespread extreme poverty has effects that cause poverty to persist. At the heart of the vicious circle is the lack of domestic resources to promote investment and productivity (which is apparent in very low savings rates), together with the environmental degradation that is occurring as people have to eat into environmental assets to survive. These problems are further accentuated by an unfavourable external economic environment featuring such factors as unsustainable debt burdens, declining financial flows, falling and unstable commodity prices, and lack of market access for exports of LDCs. Geographical disadvantages, including landlockedness, infertile soils and endemic diseases (notably malaria), also add to the problem for many LDCs. Together all this is leading to a deep structural crisis of slow economic growth. The challenge is to get out of the negative dynamic into a positive dynamic of self-sustaining growth.

50. A number of participants expressed the view that market forces cannot do this alone. There is a need for genuine international collaboration to fight poverty. There is also a need for a comprehensive approach to solving complex development problems facing the LDCs such as weak productive capacity, low economic growth, illiteracy, skewed distribution of income, high population growth, environmental degradation, HIV/AIDS, conflicts and political instability.

51. It was recognized that important progress is being made to meet the challenge of poverty reduction within the new partnership framework that has been created through the PRSP approach. Countries such as Rwanda and Uganda are seizing the opportunity for country ownership of national poverty reduction strategies, and moving forward to define priorities in creative ways.

52. However, at the national level, important weaknesses in the current approach are arising because of: the slowness of the adjustment in donor practices to the new PRSP approach; increases in the number of conditions being imposed; the problem of specifying an appropriate macroeconomic framework in situations where much public expenditure is financed from aid; low growth-orientation in the initial PRSPs, which was reflected in the weak integration of trade issues and inadequate attention to the role of the private sector and the investment climate; and generally weak state capabilities. As a result, it is not clear as yet whether the PRSP process is making a positive difference overall. At worst, the process could emasculate the State even further.

53. At the international level, despite the new promises made at Monterrey and Johannesburg, there is still not "a real financial partnership" with rich countries, or sufficient collaboration on science and technology, or an "open and fair" trading system that would help LDCs to export their way out of poverty. With regard to the latter, problems of market access and tariff peaks continue; rich-country agricultural subsidies have had very negative effects on growth potential and poverty in poor countries; non-tariff barriers, particularly phyto-sanitary measures, as well as rules of origin, continue to act as barriers to trade when special preferences for market

access have been given. In short, what is happening is a denial of quality integration for the LDCs.

54. It was shown that those LDCs that are heavily dependent on a single commodity or a few commodities for their exports face particular problems. Often these countries have a narrow range of products serving declining or sluggish international markets, resulting in low productivity, low value-added and a relatively uncompetitive commodity sector in LDCs. The ability of international trade to act as an engine of growth and poverty reduction is being short-circuited in many LDCs by falling and unstable world commodity prices. For example, in the early 1990s, earnings of coffee-producing countries were some $10-12 billion and the value of retail sales of coffee, largely in industrialized countries, about $30 billion. Now the value of retail sales exceeds $70 billion but coffee-producing countries only receive $5.5 billion. Producer prices are at the lowest levels in 100 years.

55. Specific mention was also made by panelists of the weaknesses of the Integrated Framework and the HIPC Initiative. The financial resources currently committed to the former were deemed inadequate, given the urgent need to improve supply-side capabilities in the LDCs ($10 million for 49 countries over 7 years). Although the HIPC Initiative has led to lower debt service payments, it is not working owing to deliberately overoptimistic export projections, the slowness with which countries are getting to completion point, when debt relief is irrevocably committed, and inappropriate conditionality, particularly associated with the PRGF. A particular problem is also that there is no mechanism to include all the creditors in the process, and the creditors are now suing some HIPCs to get back debts.

56. It was agreed that national efforts must be at the heart of poverty reduction, but in a globalizing world, favourable international economic relations are essential to escape the poverty trap. But there is too little aid, debt relief, trade and investment, and this, together with asymmetry in international economic relations, is reducing the effectiveness of international flows as a mechanism for escaping the poverty trap. There is much policy incoherence in international initiatives to reduce poverty, so that international support in one form is being undermined in other actions by development partners.

Improving the content of poverty reduction strategies

57. There was a strong consensus that the basis for effective poverty reduction in LDCs is accelerated economic growth and sustained development. From this perspective the PRSP should be seen as a vehicle to deliver economic growth, and it should be rooted in a long-term national development strategy. The PRSP is not a mechanism to redistribute international social welfare. Rather it should be the heart of national strategies for broad-based wealth creation. Development-oriented poverty reduction strategies are thus desirable and should place emphasis on ensuring and sustaining growth, exports and investment and policies to stimulate them. The main problem in LDCs is not that growth is not poverty reducing, but rather that growth itself is lacking.

58. There is no necessary trade-off between growth and poverty reduction, though attention should be given to income distribution issues and also to the initial asset distribution. Participants agreed that the incidence of poverty will fall rapidly if

LDCs can achieve a form of economic growth which increases average household incomes and sustain it for long enough to double average household incomes.

59. Economic growth should be based on the encouragement of private investment and sound public investment. Productive capacities need to be enhanced, but this should be done with an eye on the international market situation. Policies should take account of the underdevelopment and uneven development of markets, as well as the quality of governance, including not simply state institutions but also financial institutions. Efforts should be made to reduce the cost of doing business and also make use of regional markets as a stepping-stone to global competitiveness. The importance of developing human capabilities, "adding value to the population", was also emphasized.

60. It was considered very desirable to put forward alternative macroeconomic frameworks and also to pay closer attention to the macroeconomic effects of increased aid. Elements that would have to be taken into account here included the extent to which aid is being used to increase non-tradeables, the effects on recurrent expenditure, the predictability of aid flows, and also the division between loans and grants.

61. Appropriate macroeconomic policies need to be complemented with sectoral development policies. Particular attention needs to be paid to agriculture and rural development. A promising approach to sectoral development is to ensure that all the ingredients to support enhanced investment and productivity are in place in the right sectors and right locations with the right technologies and the right human capabilities.

62. Panelists also emphasized the importance of incorporating trade in poverty reduction strategies, though they cautioned against this leading to new conditionalities. The trade policy challenge in many LDCs is to upgrade primary commodity exports and at the same time to embark on a vigorous export promotion strategy to exploit dynamically changing comparative advantages, which can be part of a strategy of diversification into exports of labour-intensive manufactures. This could be done fruitfully in the context of relative openness, not complete trade and financial liberalization.

63. There was strong recognition of the importance of capable States. Owing to missing markets, deregulation is not enough. Property rights and contract enforcement are identified as key elements of capable States, as well as the technical ability to elaborate development programmes. It was argued that a capacity needs assessment is valuable. It is important that Governments work hard to ensure transparency and probity in public expenditure, as this will increase confidence of donors.

64. Some participants urged that the LDCs consider carefully the general policy orientations recommended in the *LDC Report 2002*, which seeks to reduce poverty through a development strategy that includes more growth-oriented macroeconomic policies, sectorally focused productive development policies, vigorous export promotion and diversification, and measures to promote inclusion. This should be done in a spirit of dialogue and learning, as the PRSP process is an evolving one. Efforts of LDCs, together with the support of their development partners, will promote implementation of the commitments and actions contained in the

Programme of Action by translating them into specific measures within their national development framework and poverty eradication strategy.

Improving international support measures

65. While the slight increase in ODA levels in recent years, especially as compared to the declining levels attained in the late 1990s, is a step in the right direction, participants emphasized the need for renewed and strengthened efforts by donor countries to meet as expeditiously as possible their commitments on ODA targets contained in the Programme of Action in view of the critical role of ODA in financing development in LDCs and the slow and geographically concentrated increase in private capital flows.

66. Panelists asserted that the PRSPs will not work if aid continues on a business-as-usual basis. A number of constructive proposals were made in this regard. More attention needs to be paid to conditionality, particularly to get rid of micro-management of development programmes. It was also strongly argued that aid will support national objectives more if it is increasingly channeled through budgets and project aid increasingly aligned with national priorities. There is a need for greater predictability in aid flows and also longer-term commitments. Aid shortfalls in relation to commitments are currently the largest source of shocks to low-income countries. The implementation of commitments to untie aid is also a priority, given the way that tied aid reduces the real value of aid to recipient countries. A shift to sector-wide programmes was also considered desirable by some participants. Harmonization of support for poverty reduction strategies could also be done through the annual PRS review. In this regard, it is important that donors gear their aid to national budget cycles and categories. Full and timely reporting of aid commitments and disbursements is important to Governments.

67. A powerful mechanism to encourage more effective aid involves establishing aid performance monitoring at the recipient country level. The Tanzanian Independent Monitoring Group is a possible model that includes independent evaluators who focus on agreed aspects of the way that both government authorities and donors handle aid. This could usefully be replicated in other countries.

68. More attention also needs to be paid to technical assistance so that it genuinely builds capacity.

69. The external debt burden of most LDCs continues to be grave, and the debt relief measures undertaken so far have proved grossly inadequate to the extent that the growth prospects of LDCs remain bleak. It is imperative that all bilateral and multilateral creditors take courageous debt relief measures, including total debt cancellation of all outstanding debt owed by LDCs, since that debt continues to weigh heavily on public expenditure and discourage private investment. The full and speedy implementation of the Enhanced HIPC Initiative for eligible LDCs was considered a major step in the right direction, but panellists also argued that the achievement of the Millennium Development Goals requires the cancellation of the outstanding debts of HIPC countries. It is necessary to rethink the debt sustainability analysis. It was also suggested that PRSPs be delinked from the debt relief process. There was a call for better forecasts, as well as protection against commodity price and other shocks (aid, natural disasters and imports). Adjustment to such shocks falls hard on the poor.

70. Some participants emphasized a need to identify elements of an international commodity policy that can support the achievement of international poverty reduction goals by initiating, *inter alia*, concrete measures to mitigate the adverse consequences of excessive price instability and the long-term decline in world commodity prices on the economies of the LDCs. The absence of international measures and policies to address the problems of low and unstable commodity prices is therefore a key missing link in the current international approach to poverty reduction in LDCs. The international community should take concrete initiatives, including resuscitating compensatory financing facilities to offset the effects of commodity price shocks on the economies of the LDCs. Some other participants suggested the need to rationalize supply. This is difficult to achieve but practical measures include setting minimum quality standard and initiating more horizontal and vertical diversification. Diversification efforts are, however, hampered by lack of market access and also market structure. A further possibility for improving prices is market development. This is particularly important in producing countries.

71. Recent market access initiatives such as the Everything but Arms initiative of the European Union and the Africa Growth and Opportunity Act of the United States, as well as other bilateral preferential market access offers, can make a positive contribution in the fight against poverty. Nevertheless, remaining trade barriers, including tariff escalation and tariff peaks, together with non-tariff barriers, continue to hamper entry of LDCs' exports into markets of major trading partners. Improved market access offers should be supplemented by specific actions to address supply-side problems of these countries. In this context, priority should be given to ensuring that more aid is targeted at productive sectors and economic infrastructure of LDCs. Further attention also needs to paid to special and differential treatment for LDCs, as well as continued efforts to reduce non-tariff barriers and to simplify rules of origin.

72. The idea of using investment preferences in rich countries to increase private capital flows was also suggested. A simpler measure that also needs to be developed further involves improving the quality of information supplied by commercial and official agencies about LDC economies and investment prospects. LDCs need increased training on the most desirable types of private capital flows.

73. Finally, particular mention was made of the importance of international migration as a mechanism of poverty reduction, and the need to provide opportunities to unskilled labour to gain work through international movement.

C. Action by the Board

74. At its closing plenary meeting, on 4 December 2002, the Board adopted agreed conclusions on agenda item 2. (For the text of the agreed conclusions, see chapter I above.)

Chapter III

INSTITUTIONAL, ORGANIZATIONAL, ADMINISTRATIVE AND RELATED MATTERS

A. Opening of the session

75. The session was opened by the President of the Board.

B. Adoption of the agenda

76. The Board adopted the provisional agenda as contained in document TD/B/EX(30)/1. (For the agenda, see annex I below.)

C. Bureau

77. The Bureau of the Board was as elected at the forty-ninth regular session, namely:

President:	Mr. Dimiter Tzantchev	(Bulgaria)
Vice-Presidents:	Mr. Iouri Afanassiev	(Russian Federation)
	Mr. Boniface Chidyausiku	(Zimbabwe)
	Mr. Luiz Felipe de Seixas Corrêa	(Brazil)
	Mr. Nathan Irumba	(Uganda)
	Mr. Toshiyuki Iwado	(Japan)
	Mr. Douglas M. Griffiths	(United States of America)
	Mr. François Leger	(France)
	Mr. Samuel T. Ramel	(Philippines)
	Mr. Lester Mejia Solis	(Nicaragua)
	Mr. Eberhard Von Schubert	(Germany)
Rapporteur:	Mr. Mehdi Fakheri	(Islamic Republic of Iran)

D. Report of the Board on its thirtieth executive session

78. The Board authorized the Rapporteur to finalize the report on its thirtieth executive session under the authority of the President.

Annex I

AGENDA FOR THE THIRTIETH EXECUTIVE SESSION

1. Adoption of the agenda.
2. Escaping the poverty trap: National and international policies for more effective poverty reduction in LDCs.
3. Other business.
4. Report of the Board on its thirtieth executive session.

Annex II

ATTENDANCE[1]

1. The following States members of UNCTAD, members of the Board, were represented at the session:

Angola
Bahrain
Bangladesh
Belarus
Benin
Bhutan
Cameroon
China
Democratic Republic of the Congo
Denmark
Egypt
Ethiopia
Finland
France
Germany
Greece
Haiti
Indonesia
Ireland
Italy
Jordan
Libyan Arab Jamahiriya
Madagascar
Malaysia
Mauritania
Mexico
Morocco
Mozambique
Nepal
Nigeria
Norway
Paraguay
Philippines
Poland
Russian Federation
Rwanda
Senegal
Slovakia
South Africa
Sudan
Switzerland
Syrian Arab Republic
Thailand
Tunisia
Uganda
United Republic of Tanzania
United States of America
Yemen
Zambia

[1] For the list of participants, see TD/B/EX(30)/INF.1.

2. The following intergovernmental organizations were represented at the session:

African, Caribbean and Pacific Group of States

Common Fund for Commodities

Common Market for Eastern and Southern Africa

European Community

Organization of African Unity

3. The following United Nations agency and related organizations was represented at the session:

Office of the High Commissioner for Human Rights

4. The following specialized agencies and related organizations were represented at the session:

International Monetary Fund

United Nations Educational, Scientific and Cultural Organization

World Intellectual Property Organization